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ABSTRACT

In response to congressional efforts to assess the potential impact that various welfare reform proposals might have on child care availability, continuity, and subsidy programs, this report examines the difficulties parents have trying to identify and secure child care while they work or attend school. The four child care programs created by the Congress for low-income families are briefly described, and the requirements of these programs, coupled with resource constraints of the states, are shown to contribute to gaps in the delivery of child care subsidies. Next, the report provides an explanation of how the current system provides little incentive to serve the low-income working poor and, in addition, how the child care supply poses a major challenge for the states. The report shows that the current child care subsidy programs produce gaps in services for low-income mothers, impede continuity of care for their children, and create child care supply shortages. The report recommends that the four programs be consolidated. While noting that welfare reform proposals call for requiring many more welfare mothers to participate in education and work, it cautions policymakers to remember that the capacity of the child care system to absorb new demand must be considered. (BAC)

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Testimony

Before the Committee on Labor and Human Resources
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CHILD CARE

Recipients Face Service Gaps and Supply Shortages

Statement of Jane L. Ross, Director,
Income Security Issues
Health, Education, and Human Services Division

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Madam Chairman and Members of the Committee:

Thank you for inviting me here today to discuss our work on the current child care subsidy system and the possible impacts of welfare reform on that system.

Most mothers need child care while they work, so their decision to work depends, at least partly, on how much money they will have left after they pay for child care. Research shows that poor families who have to pay for child care use up more than a quarter of their monthly income on care. Recognizing the importance of subsidizing child care for poor and near-poor families, the Congress enacted four subsidy programs between 1988 and 1990 to help them become and remain economically independent.

As the Congress considers various proposals to restrict the duration of mothers' stays on welfare, and move more of them into work, questions naturally arise about the capacity of the child care system. To assess the potential impacts that various welfare reform proposals might have on child care availability and continuity, and on the current subsidy programs, you asked us to discuss the difficulties parents face trying to identify and secure child care while they go to work or school. Today, I will focus on (1) how well the four current subsidy programs are working to support families on their road to self-sufficiency; (2) impediments that local Job Opportunities and Basic Skills (JOBS) training offices and child care offices face in attempting to link JOBS participants' children with available child care; and (3) the implications of our findings for welfare reform and child care program consolidation.

In summary, subsidies can have a dramatic effect on drawing low-income mothers into the work force. Yet the current subsidy programs have problems. The fragmented nature of child care funding streams, with entitlements to some client categories, time limits on others, and activity limits on others, produces unintended gaps in services. These gaps limit the ability of low-income families to achieve self-sufficiency and can harm the continuity of care for their children. These findings suggest certain benefits to be derived from consolidating federal child care funds, as well as some cautions. In addition, we found that states currently have inadequacies in the supply of child care, in particular for infant care, part-time care, children with handicapping conditions, before- and after-school care, and child care during late night shift work. These findings suggest that expanding work requirements as part of welfare reform needs to proceed with an eye toward the capacities of the child care system as well.

BACKGROUND

Among the factors that encourage mothers to keep and seek jobs, our analysis suggests that affordable child care is a decisive one. In a recent report, we concluded that subsidizing child care costs could have a dramatic effect on the employment of low-income mothers.[1] The likelihood of being employed would increase among poor and near-poor mothers in response to an increase in child care subsidies.[2] According to our model, if you offered a group of 100 poor mothers a 100-percent subsidy for their child care costs, 44 would go to work, as compared with 29 who would have worked without a subsidy. That is a 52-percent increase in the number of poor mothers who would work.

The Congress enacted changes to the welfare system in the 1988 Family Support Act (FSA) to transform Aid to Families with Dependent Children (AFDC) into a transitional program, which included a guarantee for child care subsidies. FSA established the JOBS training program to help welfare recipients get the services they need to get jobs and avoid long-term welfare dependence. Operating through local JOBS offices, states are to provide a broad range of education, training, and employment-related activities and increase the proportion of AFDC recipients participating in these activities.

JOBS accords states substantial flexibility in deciding whether and how participants will be served. Although about $1 billion in federal funds has been made available for JOBS each year, states must commit their own resources to obtain the federal dollars allocated to them. Recognizing the state financial role in JOBS, FSA generally allows states to operate their programs "as state resources permit." Although JOBS encourages states to meet minimum participation requirements--beginning at 7 percent in 1991 and rising to 20 percent this year--states are not required to serve every eligible AFDC recipient. For example, states are to excuse any AFDC recipient from participation if necessary supportive services such as child care are unavailable.

Because low-income mothers often must pay for all or part of their child care expenses, the cost of child care remains an employment barrier to many of them. Recognizing this need, the

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[1]Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

[2]These results are indicative only of how the labor supply of mothers would change with a given child care subsidy rate, holding all other variables constant. They do not take into account labor demand changes; short-term lags, gaps, or bottlenecks in the supply of child care; or other changes in economic conditions.

Congress has created four child care programs for low-income families since 1988, and in fiscal year 1994, nearly $2 billion in federal funds was made available for these programs. First, including child care in FSA, the Congress acknowledged the importance of child care to helping welfare recipients obtain employment, leave welfare, and stay employed. Thus, FSA requires states to guarantee child care to employed recipients of AFDC and participants in JOBS. Second, FSA requires states to guarantee a year of Transitional Child Care (TCC) to AFDC recipients after they leave the welfare rolls as a result of increased earnings from employment.

A third program, the At-Risk Child Care program, was created in 1990 to provide child care subsidies to working poor families not currently receiving AFDC who would be at risk of becoming eligible for AFDC without such subsidies. AFDC Child Care, TCC, and At-Risk Child Care require states to commit their own resources to obtain federal dollars. Finally, the Child Care and Development Block Grant of 1990 was designed to provide direct support to working families with incomes up to 75 percent of a state's median income. This program requires no state matching funds.

In fiscal year 1993, we studied in depth the operation of the four programs in six states--California, Illinois, Massachusetts, Michigan, New York, and Texas.[3] In fiscal year 1995, we have been studying the operation of the programs, with a special emphasis on child care for JOBS participants, in selected counties in fives states--Florida, Michigan, Minnesota, Ohio, and Washington. (See appendix I for a list of related GAO products.)

CURRENT PROGRAMS CREATE SERVICE GAPS

Although our work has demonstrated that affordable child care is a decisive factor in encouraging low-income mothers to seek and keep jobs, the existing child care subsidy system has problems. We found in our fiscal year 1993 visits to six states that the different requirements of the four federal child care subsidy programs, coupled with resource constraints in the states, produce gaps in the delivery of child care subsidies to the low-income population. Specific service gaps we identified stemmed from program differences in (1) categories of participants who can be served, (2) limits on employment-related activities, (3) limits on income eligibility, and (4) time limits on child care subsidies.

Our fiscal year 1995 visits to selected counties in five states provided additional state and local perspectives on the

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[3]Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

manner in which child care subsidy programs have been implemented.

Gaps Result From Categorical Eligibility

Despite similarities in characteristics among low-income families, whether on or off welfare, the patchwork of child care funding makes fine distinctions among categories of families. The current system of child care guarantees subsidies to AFDC recipients participating in employment or state-approved education and training activities, as well as to employed former AFDC recipients, but not to working poor families outside the AFDC system. Yet, a welfare recipient's economic status may differ little from a low-income, working, nonwelfare recipient's. In fact, some welfare recipients work but do not earn enough to be ineligible for welfare, and welfare recipients may cycle on and off assistance a number of times before leaving welfare permanently. Consequently, the separate programs may be distinguishing between the same individuals at different points in their journey from welfare to economic self-sufficiency.

Gaps Result From Limits on Employment-Related Activities

Although At-Risk Child Care and TCC statutory language expressly provides for child care subsidies during employment, Department of Health and Human Services (HHS) regulations do not specifically allow the use of those funds to subsidize child care during a period of job search--when someone has lost a job and is looking for another one. Five of the six states[4] we visited in fiscal year 1993 told us that these program funds cannot be used to subsidize child care during a period of job search, or other break in employment, unless employment is scheduled to begin. Consequently, if an employed mother becomes unemployed while her child care is being subsidized by At-Risk Child Care or TCC funds, the child care subsidy is generally lost as is the continuity of care for these children. Often the children have to be pulled out of care unless the family or another funding source can pay the entire cost of care.

Gaps From Limits on Income Eligibility

Other gaps result from limits on income eligibility. Because the Child Care and Development Block Grant limits eligibility to families with incomes below 75 percent of the state median income, it produces a "cliff" for participants whose

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[4]The only state we visited not reporting a concern over At-Risk Child Care was Michigan, which did not plan to participate in the program until 1994.

income rises even one dollar above this level.[5] This cliff can produce certain work disincentives. For example, a child care worker in Michigan told us that some participants reduce their hours of work as they approach the cutoff income because they believe they will not be able to pay for child care without the subsidy.

Gaps From Time Limits on Subsidized Child Care

TCC also presents a service delivery dilemma. At the end of the 12 months of entitlement, if a state does not have any Block Grant, At-Risk Child Care, or other funds to continue the subsidy to a client, the client must pay the entire cost of child care. This occurs even if there has been no increase in the client's earnings during the 12 months. The result could be a break in the child's continuity of care if a child is moved to cheaper care or the parent quits work. Should the parent return to welfare and participate in employment or training, the family once again would be entitled to child care.

During our work in fiscal year 1995, officials in Washington and Ohio noted that some participants do not take advantage of TCC for a number of reasons. Some participants leave the welfare ranks for employment without informing their caseworker of their employment status. Without this information, the caseworker cannot authorize TCC benefits for the client. Other participants are not aware of TCC and do not know that they are eligible for continuing child care subsidies. TCC funds, when used, are available only for 1 year, and participants often find they are unable to pay for care once this subsidy ends.

Figure 1 is a hypothetical flow of low-income families through the subsidized child care system and demonstrates possible outcomes of the different rules among the child care programs. Note how many paths may lead a family back to welfare.

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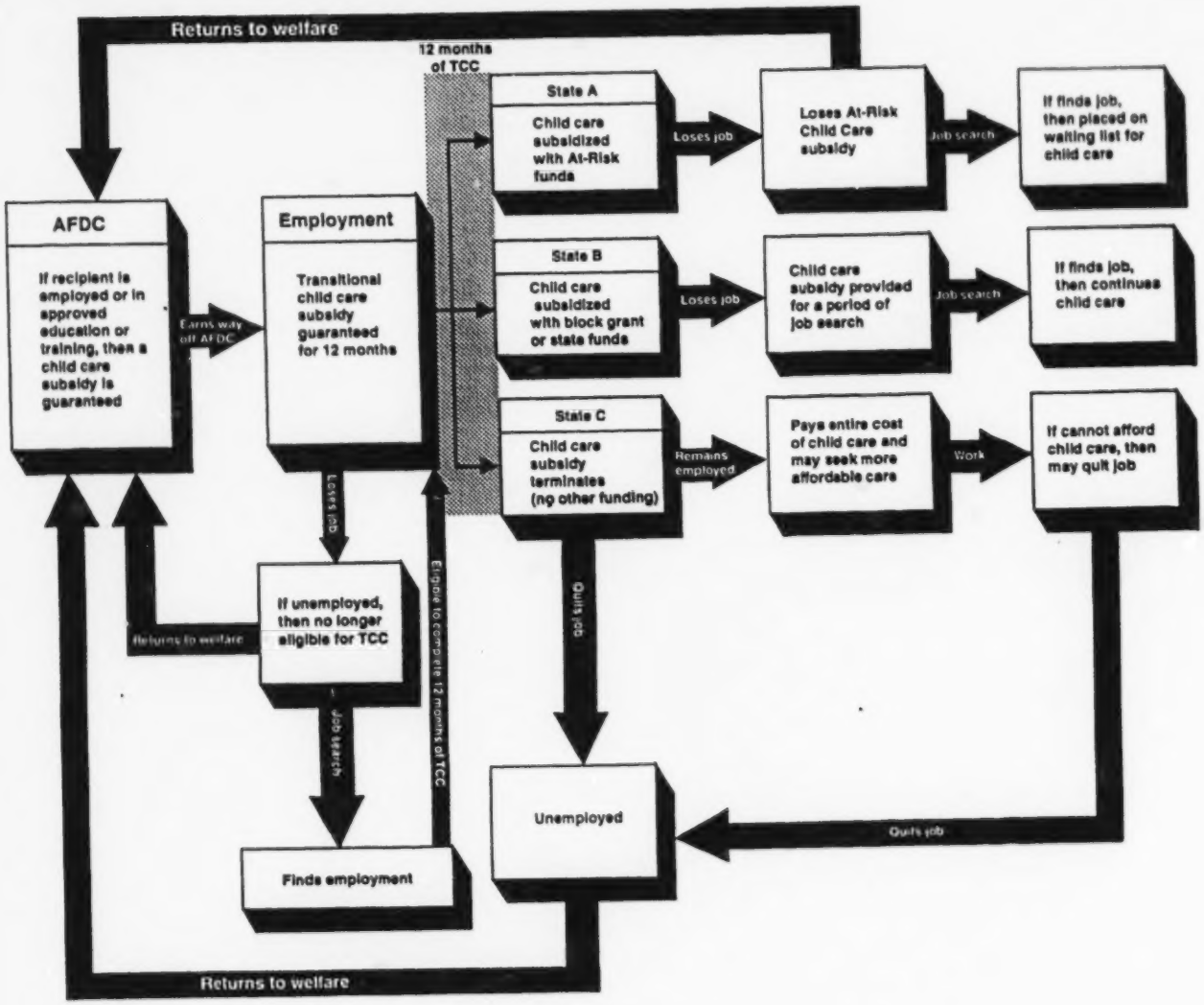
[5]A "cliff" exists when a small increase in income results in a large decrease in spendable income due to the abrupt termination of some benefit.

Figure 1: Hypothetical Client Flow Through Subsidized Child Care


Returns to welfare
12 months of TCC
AFDC
If recipient is employed or in approved education or training, then a child care subsidy is guaranteed
Earns way off AFDC
Employment
Transitional child care subsidy guaranteed for 12 months
State A
Child care subsidized with At-Risk funds
Loses job
Loses At-Risk Child Care subsidy
Job search
If finds job, then placed on waiting list for child care
State B
Child care subsidized with block grant or state funds
Loses job
Child care subsidy provided for a period of job search
Job search
If finds job, then continues child care
State C
Child care subsidy terminates (no other funding)
Remains employed
Pays entire cost of child care and may seek more affordable care
Work
If cannot afford child care, then may quit job
Loses job
If unemployed, then no longer eligible for TCC
Returns to welfare
Job search
Eligible to complete 12 months of TCC
Finds employment
Quits job
Unemployed
Quits job
Returns to welfare

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Current System Provides Little Incentive to Serve the Low-Income Working Poor

The combination of program mandates and limited resources requires states to make difficult choices that frequently result in denying services to needy eligible families. Decisions over who will receive a child care subsidy depend upon the availability of funds and the funding rules. Eligible participants are matched with funding streams that fit their eligibility status. Current rules for the child care programs described produce incentives for states to serve entitled participants first and to form waiting lists for other eligible low-income families. Michigan and Ohio, however, simply do not keep waiting lists. Florida has about 19,000 people on its working poor waiting list, Washington has 3,000 on its list, and Minnesota has 7,000. Washington State officials noted that if they were to give priority to TCC participants who are reaching the end of eligibility, the incentive for nonwelfare families to stay off assistance would be reduced. State and county officials believe many mothers quit working because they cannot afford their child care and that the availability of child care plays a major role in mothers' return to welfare.

Although child care workers believe that the provision of child care is important to prevent low-income working families from going on welfare, these families are served, as funding permits, after states provide subsidies to entitled individuals. For example, Ohio officials said that the state provides seamless child care services by automatically rolling JOBS participants from TCC benefits to At-Risk and Block Grant funding streams. Likewise, Florida gives TCC participants priority for At-Risk and Block Grant child care funds in an effort keep these mothers from cycling back onto welfare.

Some states are using Block Grant funds to meet AFDC Child Care entitlements. Although the Block Grant legislation does not prohibit assisting families on welfare, the primary goal of the Block Grant is to help working poor families afford child care. However, as states run out of money to claim federal funds, they turn to the Block Grant to meet their obligations to entitled individuals.

CHILD CARE SUPPLY POSES A MAJOR CHALLENGE FOR THE STATES

In addition to the gaps we found among the four subsidy programs and the discontinuities in care that result, we also found child care supply shortages for JOBS participants. JOBS participants currently face numerous obstacles in finding child care for (1) sick children, (2) infants, (3) special needs

children,[6] and (4) before and after school. In addition, JOBS participants have difficulty finding child care that is (1) accessible given a shortage of transportation, (2) available during nontraditional hours of work, and (3) flexible enough to meet their part-time JOBS participation hours.

Michigan officials stated that they currently have a shortage of infant and special needs-related child care in the state and a shortage of all types of child care in rural areas. A suburban county child care expert indicated the current supply of child care providers cannot handle the expected influx of 3,000 new participants under the state's recently instituted "Work First" welfare reform program. In addition, an urban county we visited has only one location that offers before- and after-school care. Busing further complicates these situations because the children may not have transportation home after care ends.

A county official in Washington State noted that many children of JOBS participants have multiple special needs, increasing provider reluctance to care for them. Minnesota officials stated that they have trouble finding providers who are qualified to care for special needs children, as well as providers who will care for children that are sick.

In addition, one of the most pressing problems cited in all states was related to transportation difficulties. Many JOBS participants do not have reliable private transportation available to get their children to the child care provider and then the client to the JOBS component. Likewise, some communities lack the necessary public transportation to get participants where they need to go.

Most states we visited indicated that finding care during shift work hours on nights and weekends is a problem for participants, many of whom find jobs in the service industry working at hotels, restaurants, hospitals, and discount department stores. This problem is very hard for communities to solve because most parents do not want their children away from home at night. Some caseworkers told us that they worry that 8- and 10-year-olds are home watching 3-year-olds.

In other instances, participants find it hard to coordinate school hours, study hours, and provider availability hours, particularly when participants only need part-time care. This problem is compounded when child care centers require participants to pay for full-time care regardless of the number

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[6]Children with special needs include those with physical, emotional, or mental handicaps; those born with AIDS; and those with chronic asthma.

of hours the child is present. And in some cases, once full-time clients become available, providers are less willing to accept part-time clients.

IMPLICATIONS FOR CHILD CARE CONSOLIDATION AND WELFARE REFORM

Our work has shown that the current child care subsidy programs produce gaps in services for low-income mothers, impede continuity of care for their children, and face child care supply shortages. To more effectively use federal funds for child care subsidies while addressing service gaps and continuity of care problems, the four existing programs could be candidates for consolidation. Our work has demonstrated that the four discrete categories of low-income mothers and children for whom the Congress created the four separate child care subsidy programs are not so discrete. One family, at different points on the road from welfare dependency to becoming a nonwelfare, working poor family, can become eligible for each of the four programs. But this can necessitate moving children from one child care provider to another as the family moves through the categorical programs. Similarly, two families whose incomes are the same can be treated differently by different child care programs, based on other categorical eligibility factors. And these categorical eligibility factors can cause gaps in child care services. These gaps can result in loss of employment, inability to search for employment, and a diversion of subsidy funds away from the nonentitled--the working poor.

Welfare reform proposals call for requiring many more welfare mothers to participate in education and work. Yet today the JOBS program is only serving a small fraction of the adult AFDC recipients, and it is exempting large numbers of potential participants. The most recent HHS data available on the 5 states we visited in fiscal year 1995 show that the states were serving 134,321 welfare participants in their JOBS programs.[7] This number represented only 15.4 percent of their total adult AFDC caseload.

Yet in attempting to place welfare mothers in jobs today, states and local offices already face child care supply shortages in the kinds of care welfare mothers disproportionately need, that is, care for special needs children and sick children and care during part-time hours and late night shift work. They also face shortages of before- and after-school care and infant care. Reform proposals that require many additional welfare mothers to participate in school or work could exacerbate these shortages. Thus, consideration of reforms to the welfare system--particularly those that (1) increase the numbers of mothers

[7]HHS Information Memorandum, JOBS-ACF-IM-94-6, "Final Estimates for JOBS Participation for FY 1993" (June 29, 1994).

required to participate in school, training, or work; or (2) limit mothers' time on welfare; or (3) include a public-service work requirement for those who fail to find private employment--needs to proceed with an eye toward the capacity of the child care system to absorb new demand.

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Thank you, Madam Chairman. That concludes my statement today. I would be happy to answer any questions.

For more information on this testimony, please call Lynne Fender, Assistant Director, at (202) 512-7229. Other major contributors include Margaret Boeckmann, Senior Social Science Analyst; Alicia Puente Cackley, Senior Economist; Alexandra Martin-Arseneau, Senior Evaluator; Diana Pietrowiak, Senior Evaluator, and Shellee Soliday, Senior Evaluator.

RELATED GAO PRODUCTS

Child Care: Narrow Subsidy Programs Create Problems for Mothers Trying to Work (GAO/T-HEHS-95-69, Jan. 31, 1995).

Welfare to Work: AFDC Training Program Spends Billions, but Not Well Focused on Employment (GAO/T-HEHS-95-51, Jan. 10, 1995).

Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

Welfare to Work: Current AFDC Program Not Sufficiently Focused on Employment (GAO/HEHS-95-28, Dec. 19, 1994).

Family Child Care: Innovative Programs Promote Quality (GAO/T-HEHS-95-43, Dec. 9, 1994).

Child Care: Promoting Quality in Family Child Care (GAO/HEHS-95-36, Dec. 7, 1994).

Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, Oct. 31, 1994).

Child Care: Current System Could Undermine Goals of Welfare Reform (GAO/T-HEHS-94-238, Sept. 20, 1994).

Families on Welfare: Sharp Rise in Never-Married Women Reflects Societal Trend (GAO/HEHS-94-92, May 31, 1994).

Families on Welfare: Teenage Mothers Least Likely to Become Self-Sufficient (GAO/HEHS-94-115, May 31, 1994).

Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts (GAO/HEHS-94-112, May 31, 1994).

Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

Infants and Toddlers: Dramatic Increases in Numbers Living in Poverty (GAO/HEHS-94-74, April 7, 1994).

Child Care Quality: States' Difficulties Enforcing Standards Confront Welfare Reform Plans (GAO/T-HEHS-94-99, Feb. 11, 1994).

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Child Care: States Face Difficulties Enforcing Standards and Promoting Quality (GAO/HRD-93-13, Nov. 20, 1992).

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Mother-Only Families: Low Earnings Will Keep Many Children in Poverty (GAO/HRD-91-62, Apr. 2, 1991).

Welfare: Income and Relative Poverty Status of AFDC Families (GAO/HRD-88-9, Nov. 4, 1987).

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